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Organics are an Opportunity for the US Exporters

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Product Brief

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Report Highlights:

Croatia's organic food market, while small, is emerging with imported organic products dominating the market. The organic arrangement between the U.S. and the EU in combination with growing demand for organic products in Croatia create opportunities for U.S. companies. Export opportunities are to be found in fresh produce, dried fruits and nuts, specialty grains and processed products. Affordability, availability and choice of organic products will be the key factors motivating purchases by the price-sensitive Croatian consumer.

Executive Summary:

Beginning June 1, 2012, organic products certified in the United States or the European Union (EU) can be sold as organic in either market, streamlining trade between the two largest organic markets in the world. All products traded under the partnership must be shipped with an organic import certificate. Croatia, as an EU Member State, is a member of the U.S.-EU Organic Equivalence Agreement. Croatia's organic food market, while small, is emerging with imported organic products dominating the market. Export opportunities are to be found in fresh produce, dried fruits and nuts, specialty grains and processed products. Affordability, availability and choice of organic products will be the key factors motivating purchases by the price-sensitive Croatian consumer.

Disclaimer: Official data about the organic food market is very scarce and not publicly available. The information in this report is based on a wide range of sources such as industry and trade interviews, industry/NGO/research publications, specialized and daily media. FAS Zagreb made an effort to use reliable and verifiable information; however, in the absence of official statistics, most of the data is based on trade estimates.

General Information:

Market Size and Consumption:

The total Croatian market for organic food is estimated at over EUR 100 million (\$93.6 million) with most of the products being imports. Currently, organic products are being sold in major supermarket chains (i.e. Spar, Konzum, Billa, etc), drug store chains (i.e. DM, Müller, etc), and organic franchises (i.e. <https://www.biobio.hr/>), small private organic stores, farmers markets, and directly from organic producers. Furthermore, some sellers are using on-line sales to market their products (e.g. <https://www.biobio.hr/> ; <http://www.terra-organica.hr/prirodno-ljecenje.html> ; <http://www.bioshop.hr/> ; <http://www.mojanatura.hr/> ; etc).

An important driver behind the growing organic market is the predominance of large supermarket chains that carry organics. This has resulted in a greater availability of organic products for a larger audience. According to a 2013 market research from "Tvornica istraživanja", 20% of Croatians buy organic products on a weekly basis, while 25% make purchases on a monthly basis. This research also showed that 48% of Croatians buy an organic product at least once a year. Most of these purchases are from a supermarkets (62%) followed by a specialized stores (27%) and there is now a pronounced upward trend in purchases directly from producers.

Croatian consumers of organic products can be categorized as either "regular buyers" or double-income-no-kids households and new- trend seekers. Regular buyers are a very small group that has been buying organic products for some time now. This group includes environmentalists/nature lovers and socially conscious people. For them price is not an important factor in their purchasing decision. They tend to buy at organic specialty shops or farmers' markets. Double-income-no-kids households and trend seekers are quite different. They buy organic products for various reasons such as part of a healthy lifestyle, because of

concerns about food safety, animal welfare, sustainability, or due to a perceived benefit in terms of quality, taste, or innovative packaging. This group buys organic products at supermarket chains and in organic shops.

Opportunities for U.S. organic products can be found in fresh produce, dried fruits and nuts, specialty grains and processed products because these are also sectors with a growth potential for non-organic U.S. origin products.

- Imports of fresh fruits and vegetables together with processed fruits and vegetables were approximately \$397 million in 2014. However, U.S. exports of these products to Croatia were valued at only approximately \$1 million. This sector has high prospects because Croatia is not self-sufficient in these products and will always import exotic fruits.
- Another interesting sector is tree nuts. In 2014, Croatia imported approximately \$25 million in tree nuts, of which more than \$6 million came from the U.S. Croatia imports all of its pistachios and peanuts while Croatia's almond production satisfies about half of domestic demand, thus there is also a good market potential for U.S. almond producers and exporters.
- Health oriented Croatian consumers are more and more interested in healthy snacks (cereal/nut bars), organic confectionary products, agave sweeteners, maple sugar and syrup and organic beverages.

However, it should be noted that affordability, availability and choice of organic products will be the key factors motivating purchases by price-sensitive Croatian consumers.

Local Production and Area:

Local organic production is centered on vegetables and fruits, some meat, dairy and honey.

Value added organic products are mostly imported. From 2003 to 2013, thanks to a growing demand for organic products, the number of organic producers increased more than 10 fold (from 130 to 1,609). Acreage also almost doubled from 23,282.37 ha or approximately 1.8% of total agricultural acreage in 2003 to 40,640.65 ha or approximately 3.12% of total agricultural acreage in 2013.

Organic agriculture is a strategic production sector according to the Croatian Ministry of Agriculture which released "The 2011-2016 Action Plan for the Development of Organic Agriculture". Primary goal of this Action Plan is to increase the amount of land under organic farming as a proportion of total agricultural land in Croatia from 2.5% that Croatia had in 2011 to 8.0% by 2016. In addition to increasing the area under organic farming, there are also a number of specific strategic objectives in that Plan. For example: the development of a stable and well-informed national market for certified organic products; increased quality and safety of certified organic products; promotion of sustainable rural development through diversification of agricultural activities; increasing productivity of organic agriculture; improving rural employment, income and desire of people to stay in the rural areas; preservation and enhancement of natural resources used in agriculture in order to reduce pollution; and

preservation of biodiversity and ecosystems. These objectives were planned to be executed through organic agriculture subsidizing, subsidizing renewable energy usage at organic farms, marketing campaigns, organizing organic fairs, insuring there are enough experts on organic agriculture at Extension Service, etc.

The 2011-2016 Action Plan in Croatian can be found at <http://www.mps.hr/UserDocsImages/strategije/AKCIJSKI%20PLAN%20RAZVOJA%20EKOLO%20C5%A0KE%20POLJOPRIVREDE%20ZA%20RAZDOBLJE%202011-2016.pdf> .

Procedure for registering as an organic producer in Croatia can be found at <http://reg.fsi.state.gov/CourseCatalog.aspx?EventId=PD534> . Besides being in the register of organic producers, an organic farm needs to be inspected and accredited by the certifying body at least once a year. Croatia currently has 8 accredited certifying bodies that can also be found at the above mentioned web page.

Croatian organic production and labeling is regulated with the Agricultural Act and the Regulation on Organic Production, which incorporate all the relevant EU legislation on organics that can be found at http://ec.europa.eu/agriculture/organic/eu-policy/eu-rules-on-production/legal-frame/index_en.htm .

Trade:

With the signing of the U.S.-EU Organic Equivalence Cooperation Arrangement in 2012, organic products certified in the U.S. or EU can now be sold in either market without having to get recertified. This partnership streamlines trade between the two largest organic producers in the world. Although there are small differences between the U.S. and EU organic standards, both parties individually determined that their programs were substantially equivalent.

All products traded under the partnership must be shipped with an organic import certificate.

For details on the U.S.-EU Organic Equivalence Cooperation Arrangement please review: Gain Report NL5003 (<http://www.fas.usda.gov/data/eu-28-plenty-opportunities-us-organics-eu-market>) and check out the Foreign Agricultural Service Office to the European Union webpage at <http://www.usda-eu.org/trade-with-the-eu/trade-agreements/us-eu-organic-arrangement/> .

Croatia is mainly an importer of organic products and value added organic products, but the value of that trade cannot be easily traced due to a lack of HS codes for organics. However, in January 2011, for the first time, the U.S. introduced specific HS (Harmonized Commodity Description and Coding System) tariff codes for a select group of fresh or processed agricultural products certified under the United States Department of Agriculture's National Organic Program (NOP). The new HS codes do not fully capture existing organic trade with the EU, but they are a useful tool for tracking many of the covered products and for getting a general idea about changes in trade as a result of the new U.S.-EU agreement.

U.S. export and import statistics on the above mentioned organic products can be obtained

through USDA's Global Agricultural Trade System Online (GATS): <http://www.fas.usda.gov/gats/default.aspx> by running a standard query and selecting "Organics-Selected" under "Product Groups". According to USDA's GATS system based on the select HS organic codes, the U.S. is currently importing some organic products from Croatia (\$ 212,000 in 2014), but there are no substantial direct U.S. exports to Croatia. However, U.S. organic products are entering Croatia from the Netherlands and Germany as these two countries are important destinations for U.S. organic products and have well-established food trade patterns with Croatia.

Market development

Trade shows remain an excellent way for U.S. exporters to make contact with potential Croatian business partners, to conduct product introductions and to gauge buyers' interest.

BioFach (<https://www.biofach.de/en/missingslash.ashx>) is the largest international trade show in Europe for specialty organic products and Croatian importers like to visit this show. BioFach is a USDA endorsed event, where FAS organizes a US pavilion featuring US products.

Fruit Logistica (<http://www.b-for.com/Germany.html>) is a European trade show that attracts buyers of organic fresh produce, nuts and dried fruits from all over Europe and Croatia. This show is also USDA endorsed and has an excellent US pavilion.

Fairs like SIAL (<http://www.sialparis.com/>) and Anuga (<http://www.anuga.com/anuga/index-2.php>) attract buyers of specialty and retail-ready products and therefore are very suitable for exporters of US organic processed products.

More detailed information about USDA endorsed shows in Europe this year can be found at <http://www.fas.usda.gov/international-trade-shows-2015> or at <http://zagreb.usembassy.gov/business/doing-business-in-croatia-agro-food-products.html>.

Other Sources of Information:

Croatian Ministry of Agriculture, information on organic agricultural production:
<http://www.mps.hr/default.aspx?id=6184>

European Commission, information on organic agricultural production:
http://ec.europa.eu/agriculture/organic/index_en.htm

Croatian company doing business with organics:
<http://www.biovega.hr/>

Croatian cluster of companies that are doing business in organics:
<http://kep.hr/>

Croatian company specialized in organic production/products business counseling:

<http://lok vina.hr/stanje-ekoloske-poljoprivrede-u-rh-2/>

Croatian web-portal with information and education for businesses and farms that deal with organics:

<http://www.ekopoduzetnik.com/>